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Corp report

# **POLCON CORPORATION**

## *INTERIM REPORT*

*For the six-month period  
ending April 30, 1971*



To Our Shareholders:

We are pleased to submit herewith the Consolidated Statement of Operations for Polcon Corporation and Subsidiary Company for the six-month period ending April 30, 1971.

Sales for this period totalled \$426,525 with a profit after allowance for taxes of \$88,954, i.e., 8 cents per share. Figures for the same period last year showed sales of \$44,334 and a loss of \$36,590. It is felt that this comparison gives some indication of the degree of progress and increase in the Company's activities.

The Company has been requested by many Shareholders to provide descriptive information on its products and installations. We have, therefore, enclosed with this report a copy of our latest technical pamphlet containing a brief description of the Company's products and photographs of many of its installations for industrial and domestic sewage treatment, as well as systems for water quality improvement, eutrophication reversal, siltation prevention, etc.

Since our last report to you, the Company entered into a agreement with a Japanese firm for the representation of its products in the Orient, with plans being outlined for the eventual formation of a joint venture company in that territory. A Polcon system has already been installed in their area, namely Nagoya Harbour, as described on page 7 of the brochure.

In the last half year the tempo of the Company's activities pertaining to contract negotiations for projects in each of its fields of endeavour has increased by a greater degree than anticipated. We are, therefore, looking forward not only to a successful second half of our financial year, but remain rather confident about future prospects.

We should like to take this opportunity to welcome our new Shareholders and assure both them and our original Shareholders of our appreciation for their support of the Company's objectives.

On behalf of the Board,

*L. Smolski*

Ludwik Smolski  
President

Montreal, P.Q.

May 21, 1971

*water quality improvement*

*and siltation*

*infg. of waste-water treatment systems - eutrophication*



**POLCON CORPORATION  
AND SUBSIDIARY COMPANY**

**CONSOLIDATED STATEMENT  
OF OPERATIONS  
FOR THE SIX-MONTH PERIOD ENDING APRIL 30, 1971**

	(Unaudited)
SALES	<u>\$426,525</u>
COST OF SALES AND OPERATING EXPENSES	
exclusive of items shown below	267,411
Depreciation	677
Amortization of patents	1,756
Amortization of leasehold improvements	421
Remuneration of directors as officers	<u>17,000</u>
	<u>287,265</u>
Profit on operations	139,260
Interest and sundry income	<u>5,132</u>
Profit before income taxes	144,392
Allowance for income taxes	<u>55,438</u>
NET PROFIT	<u><u>\$ 88,954</u></u>

This statement is subject to audit  
and year-end adjustments.



## **DIRECTORS:**

*Ludwik Smolski*

Chairman, Board of Directors  
President, Polcon Corporation  
President, Polcon Corp.  
Montreal, P.Q.

*John R. Aikman*

Executive Vice-President,  
Capital Management Limited,  
Vice-President, Polcon Corporation  
Vice-President, Polcon Corp.  
Montreal, P.Q.

*T.P. Hanson*

Vice-President, Polcon Corporation  
Vice-President, Polcon Corp.  
Sherbrooke, P.Q.

*C.A. Laycock*

Secretary-Treasurer, Polcon  
Corporation  
Secretary-Treasurer, Polcon Corp.  
Montreal, P.Q.

*R.A. Wisener*

President, Wisener & Partners Co. Ltd.  
Toronto, Ontario

## **OFFICERS:**

President:

*Ludwik Smolski*

Vice-Presidents:

*John R. Aikman*

*T.P. Hanson*

Secretary-Treasurer:

*C.A. Laycock*

## **AUDITORS:**

Dunwoody & Company  
Montreal, P.Q.

## **COUNSEL:**

Phillips, Vineberg, Goodman,  
Phillips & Rothman,  
Montreal, P.Q.

## **TRANSFER AGENTS & REGISTRAR:**

Royal Trust Company

## **SUBSIDIARY COMPANY:**

Polcon Corp.  
222 Cedar Lane, Teaneck,  
N.J., 07666, U.S.A.

## **POLCON CORPORATION**


1550 Mainsonneuve Blvd. W.  
Montreal 107, P.Q., Canada  
Telex: 05-268681  
Telephone: (514) 931-3876



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ANNUAL REPORT 1971

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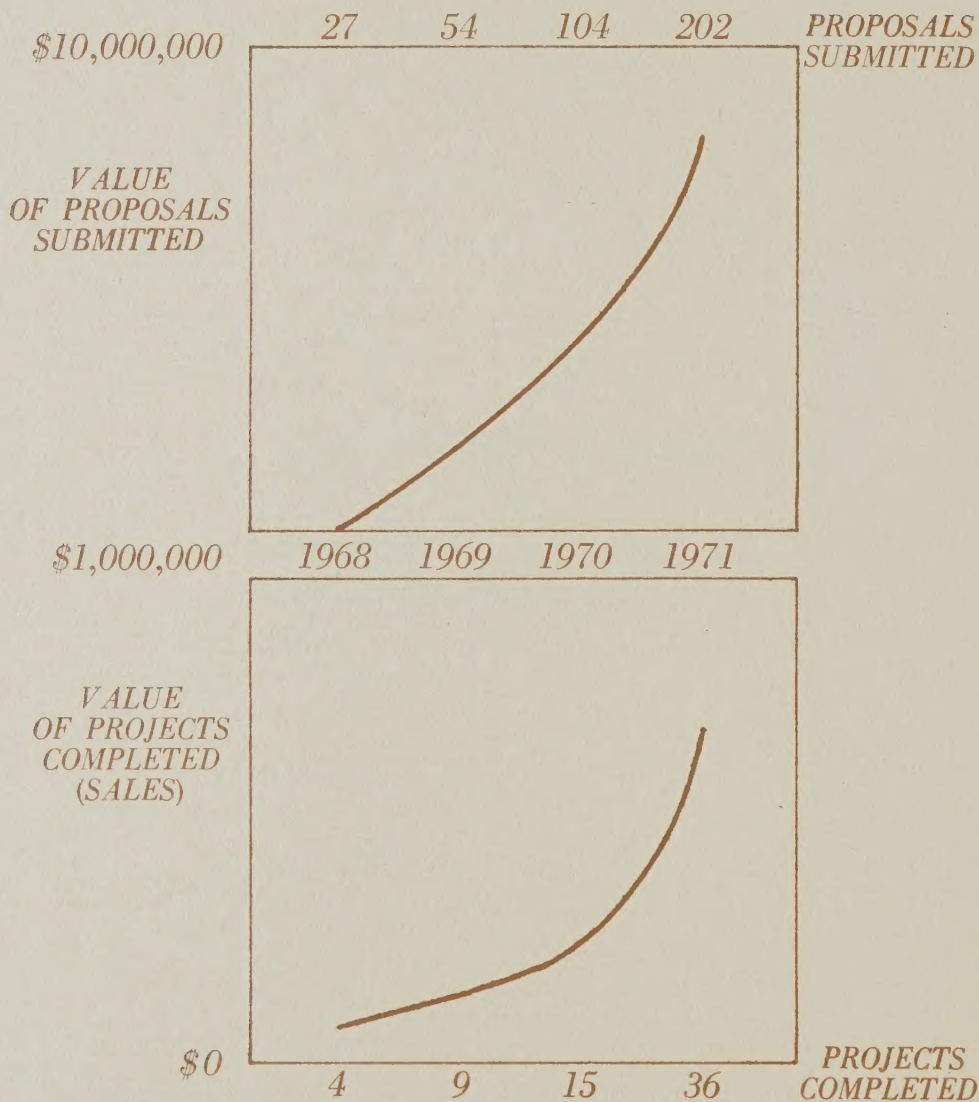
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*POLCON CORPORATION  
&  
SUBSIDIARY COMPANY  
ANNUAL REPORT 1971*

# PROPOSALS SUBMITTED & PROJECTS COMPLETED 1967-1971





## *DIRECTORS & OFFICERS:*

*Ludwik Smolski*  
*Montreal, P.Q.*  
*President, Polcon Corporation*  
*President, Polcon Corp.*

*T. P. Hanson*  
*Sherbrooke, P.Q.*  
*Vice-President, Polcon Corporation*  
*Vice-President, Polcon Corp.*

*John R. Aikman*  
*Montreal, Que.*  
*Vice-President, Polcon Corporation*  
*Vice-President, Polcon Corp.*

*C. A. Laycock Montreal, P.Q.*  
*Secretary-Treasurer, Polcon Corporation*  
*Secretary-Treasurer, Polcon Corp.*

*R. A. Wisener*  
*Toronto, Canada*

## *AUDITORS:*

*Dunwoody & Company*  
*Montreal, P.Q.*

## *COUNSEL:*

*Phillips, Vineberg,*  
*Phillips & Rothman*  
*Montreal, P.Q.*

## *TRANSFER AGENTS* *& REGISTRAR:*

*Royal Trust Company*

*Polcon Corporation 1550 Maisonneuve Blvd. W.,*  
*Suite 200, Montreal 107, P.Q. Canada*

*Polcon Corp. 222 Cedar Lane,*  
*Teaneck, N.J., 07666. U.S.A.*



## TO OUR SHAREHOLDERS

*Further real progress was made in each of the company's fields of activity during the year under review. Sales almost tripled to \$699,337. on which a net profit of \$78,286. was earned, equivalent to \$0.07 per share. At year end, the balance sheet reflected a strong financial condition with working capital of \$377,277. and no corporate indebtedness.*

*The gain in sales in 1971 occurred mainly in the United States, which represents by far the largest market for Polcon wastewater treatment, water quality improvement, as well as ice and silt prevention systems. Our success to date has been particularly gratifying in that it has been achieved with limited coverage of the available market and a relatively short operating history. Until recent months, sales have been concentrated in western Canada and in the U.S. upper midwest but sales are now beginning to reflect the rapid expansion of our network of highly qualified sales representatives over the past eighteen months.*

*Our efforts to build a strong and broadly based marketing organization have been facilitated by the company's outstanding operating record. Without exception, Polcon-engineered Helixor systems are operating at or in excess of design capacity. Some of these installations, especially those in Europe and Japan, are more in the nature of pilot projects, but all of them should lead to commercial applications in due course.*



*As a consequence of the rapid upsurge in proposals issued in 1971 most of which represent potential business 12 to 24 months from the date of issue, we have found it necessary to make further additions to our engineering and sales staff. Though the effect may be to penalize earnings in the short run, it is essential that we utilize our financial resources to expand the base of our operations. To fail to do so would be to jeopardize the competitive position of the company and to limit its potential for growth.*

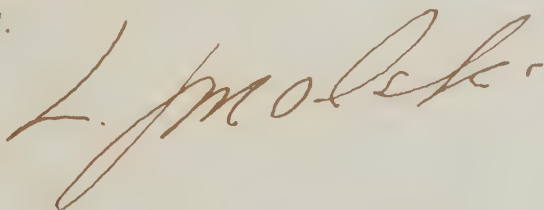
*Sales in the second half of the year were affected by delays in several important contract decisions and an inability to ship certain purchased equipment for reasons beyond our control. Present indications are that sales will continue to grow rapidly in the current fiscal year, as the company is presently competing for systems installations in a greatly expanded market, particularly in the United States and abroad.*

*Your company has entered the 1972 fiscal year with enormous opportunities, adequate financial resources, an excellent marketing organization and, most importantly, a qualified and enthusiastic staff to whom the demands of a growth industry are freely accepted. To our staff and our shareholders we wish to extend our appreciation of the contribution they are making to the company's success.*

*On behalf of the Board of Directors,*

**LUDWIK SMOLSKI**  
*President.*

*Montreal, Quebec  
December 6, 1971*

A handwritten signature in dark ink, appearing to read 'L. Smolski', written in a cursive style.





*Polcon siltation prevention system*



## *FINANCIAL STATEMENTS*



## CONSOLIDATED STATEMENT OF OPERATIONS

*For the year ended October 31, 1971*

	1971	1970
<b>SALES</b>	<b>\$699,337</b>	<b>\$242,770</b>
<b>COST OF SALES &amp; OPERATING EXPENSES</b>		
<i>exclusive of items shown below</i>	583,705	270,938
<i>Depreciation</i>	5,854	1,477
<i>Amortization of patents &amp; trademarks</i>	3,713	735
<i>Amortization of leasehold improvements</i>	1,072	2,124
<i>Remuneration of directors as officers</i>	34,583	36,660
	628,927	311,934
<i>Profit (loss) on operations</i>	70,410	(69,164)
<i>Interest income</i>	8,026	5,995
<i>Profit (loss) before income taxes &amp; government grants</i>	78,436	(63,169)
<i>Income taxes payable (recoverable), note 5</i>	850	(3,173)
	77,586	(59,996)
<i>Grants under the Industrial Research &amp; Development Incentives Act</i>	700	1,200
<b>NET PROFIT (LOSS)</b>	<b>\$ 78,286</b>	<b>\$ (58,796)</b>
<i>Earnings (loss) per share, note 8</i>	.07	( .06)



# **CONSOLIDATED STATEMENT OF SOURCE & APPLICATION OF FUNDS**

*For the year ended October 31, 1971*

	1971	1970
<b>SOURCE OF FUNDS</b>		
<i>Operations</i>		
<i>Net profit (loss)</i>	\$ 78,286	\$ (58,796)
<i>Charges not requiring an outlay of funds</i>		
<i>Depreciation &amp; amortization</i>	10,639	4,336
	88,925	(54,460)
<i>Issue of common shares</i>		270,000
<i>Decrease in deferred sales expenses</i>		724
	88,925	216,264
<b>APPLICATION OF FUNDS</b>		
<i>Cost of issue of common shares</i>		26,952
<i>Patents &amp; trademarks</i>	3,417	25,643
<i>Increase in deferred sales expenses</i>	6,439	
<i>Fixed asset purchases</i>	23,362	6,792
<i>Guarantee deposits</i>	581	1,463
	33,799	60,850
<b>INCREASE IN WORKING CAPITAL</b>	55,126	155,414
<i>Working capital, beginning of year</i>	322,151	166,737
<b>WORKING CAPITAL, END OF YEAR</b>	<b>\$377,277</b>	<b>\$322,151</b>



# CONSOLIDATED BALANCE SHEET

As at October 31, 1971

## ASSETS

CURRENT ASSETS	1971	1970
Cash & short term deposit receipt	\$129,971	\$ 23,292
Due from Underwriter		270,000
Accounts receivable	360,966	121,462
Industrial Research & Development		
Grant receivable	1,900	1,200
Income taxes recoverable		3,207
Inventory, at cost	6,416	20,931
Prepaid expenses	8,050	3,680
	507,303	443,772
 FIXED ASSETS, note 2	 \$26,773	 \$10,337
 OTHER ASSETS		
Guarantee deposits	2,044	1,463
Patents & trademarks, note 3	56,967	57,263
Deferred sales expenses	10,831	4,392
	69,842	63,118
	\$603,918	\$517,227

Approved on behalf of the Board:

Director

Director



*LIABILITIES*

<i>CURRENT LIABILITIES</i>	<i>1971</i>	<i>1970</i>
<i>Accounts payable &amp; accrued liabilities</i>	<i>\$125,248</i>	<i>\$118,002</i>
<i>Sales &amp; other taxes payable</i>	<i>3,928</i>	<i>3,619</i>
<i>Income taxes</i>	<i>850</i>	
	<i>130,026</i>	<i>121,621</i>

*SHAREHOLDERS' EQUITY*

*CAPITAL STOCK*

*Authorized 2,000,000 common shares without nominal or par value,  
the aggregate consideration not to exceed \$6,000,000*

<i>Issued, note 4</i>		
<i>1,099,990 shares</i>	<i>303,333</i>	
<i>999,990 shares</i>		<i>33,333</i>
<i>To be issued, note 4</i>		
<i>100,000 shares</i>		<i>270,000</i>
	<i>303,333</i>	<i>303,333</i>
<i>CONTRIBUTED SURPLUS</i>	<i>162,041</i>	<i>162,041</i>
<i>RETAINED EARNINGS (DEFICIT)</i>	<i>8,518</i>	<i>(69,768)</i>
	<i>473,892</i>	<i>395,606</i>
	<i>\$603,918</i>	<i>\$517,227</i>



*CONSOLIDATED STATEMENT OF  
RETAINED EARNINGS*

*For the year ended October 31, 1971*

	<i>1971</i>	<i>1970</i>
<i>RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR</i>	<i>\$ (69,768)</i>	<i>\$ 15,980</i>
<i>Net profit for the year</i>	<i>78,286</i>	
	<i>8,518</i>	<i>15,980</i>
<i>Loss for the year</i>		<i>58,796</i>
<i>Cost of issue of common shares</i>		<i>26,952</i>
		<i>85,748</i>
<i>RETAINED EARNINGS (DEFICIT), END OF YEAR</i>	<i>\$ 8,518</i>	<i>\$ (69,768)</i>

**CONSOLIDATED STATEMENT OF  
CONTRIBUTED SURPLUS**

*For the year ended October 31, 1971*

	1971	1970
<i>BALANCE, BEGINNING OF YEAR</i>	<i>\$162,041</i>	<i>\$154,935</i>
<i>Excess of deemed value<sup>1</sup> received over the then par value of 1,664 common shares issued as partial consideration for acquisition of foreign patents &amp; patent rights</i>		<i>7,106</i>
<i>BALANCE, END OF YEAR</i>	<i>\$162,041</i>	<i>\$162,041</i>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 1971

## 1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its wholly-owned United States subsidiary company, Polcon Corp.

All material inter-company items and transactions have been eliminated in consolidation.

The accounts of the subsidiary company have been converted into Canadian funds on the following basis.

- (i) Current assets & liabilities at the exchange rate in effect on October 31, 1971.
- (ii) Fixed assets at rates in effect on the dates of acquisition.
- (iii) Revenues & expenses at the average rate for the year.

## 2. FIXED ASSETS

The following is a summary of the fixed assets and the related accumulated depreciation or amortization:

	1971		1970	
	Accumulated Depreciation & Cost Amortization		Accumulated Depreciation & Cost Amortization	
Equipment	\$ 993	\$ 366	\$ 387	\$ 209
Furniture & fixtures	31,414	8,625	8,658	2,927
Leasehold improvements	5,361	2,004	5,360	932
	37,768	10,995	14,405	4,068
Net book value	\$26,773		\$10,337	

Depreciation & amortization are recorded at the maximum rates allowed for income tax purposes.

### 3. PATENTS & TRADEMARKS

	1971	1970
<i>Patents</i>		
<i>At cost</i>	\$61,698	\$59,716
<i>Amortization to date</i>	(6,082)	(2,453)
	55,616	57,263
<i>Trademarks</i>		
<i>At cost</i>	1,435	
<i>Amortization to date</i>	( 84)	
	1,351	
	\$56,967	\$57,263

*Patents and trademarks are being amortized over a 17 year period.*

### 4. CAPITAL STOCK

*A total of 100,000 common shares without nominal or par value were issued during the year for an aggregate cash payment of \$270,000.*

### 5. PROVISION FOR INCOME TAXES

*Income taxes payable for the current year have been reduced as a result of applying the balance of prior years' losses.*

### 6. CONTINGENT LIABILITIES & COMMITMENTS

*The company and its subsidiary company have leases for the rental of business premises up to a maximum of four years. Total rental expense for the fiscal year ended October 31, 1971 amounted to \$16,214 and minimum rentals for the succeeding years will aggregate approximately \$16,300 annually.*

### 7. FOREIGN EXCHANGE

*Foreign currencies have been converted to Canadian funds at the respective rates in effect at October 31, 1971.*

### 8. EARNINGS PER SHARE

*The earnings (loss) per share figures are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years after giving effect to the stock split (30:1) on October 23, 1970 and the issue of an additional 100,000 shares on November 12, 1970.*



## AUDITORS' REPORT

*To the Shareholders  
Polcon Corporation*

*We have examined the consolidated balance sheet of Polcon Corporation and subsidiary company as at October 31, 1971 and the consolidated statements of operations, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.*

*In our opinion, these financial statements present fairly the consolidated financial position of the companies as at October 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.*

*Montreal, Quebec  
December 6, 1971*

*DUNWOODY & COMPANY  
Chartered Accountants*







